



October 2006 Finance Report

Information Technology Investment Board Finance and Audit Committee October 2006

This Finance Report covers the following topics:

- Fiscal Year 2007 To Date VITA Financial Results
- Cash Flow
- Memoranda of Understanding (MOU) With Agencies
- Enterprise Applications Project Office Financial Results
- 2007 Budget Requests-Rate Proposals

FY 2007 YTD Financial Results (thru September 30, 2006)

YTD Financial Results All Funds

	<i>FY 2007 Budget</i>	<i>30-Sept-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
<u>All Funds</u>			
Revenues, including transfers in	\$317,134,283	\$77,687,180	24.5%
Expenses, including transfers out	<u>\$311, 406,005</u>	<u>71,515,664</u>	23.0%
Net Change	\$5,728,278	6,171,516	
Retained Earnings, July 1		55,281,895	
Ending Retained Earnings		\$61,453,411	

Overall, financial activity in all funds in fiscal year 2007 is in line with expectations.

Differences between the Revenue and Expense amounts are described following the individual fund tables.

**YTD Financial Results
Internal Services Fund**

	<i>FY 2007 Budget</i>	<i>30-Sept-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
<u>ISF</u>			
Revenues, including transfers in	\$251,923,915	\$65,698,635	26.1%
Expenses, including transfers out	<u>\$251,885,997</u>	<u>65,202,838</u>	25.9%
Net Change	\$37,918	495,797	
Retained Earnings, July 1		29,194,435	
Ending Retained Earnings		\$29,690,232	

The Internal Service Fund program represent the core of VITA's business and accounts for the majority of revenues and expenses, including telecommunications, computer services, and direct billed/Memorandum of Agreement services.

**YTD Financial Results
Enterprise Funds**

	<i>FY 2007 Budget</i>	<i>30-Sept-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
<u>Enterprise</u>			
Revenues, including transfers in	\$54,222,802	\$10,578,859	19.5%
Expenses, including transfers out	<u>\$48,532,442</u>	5,241,059	10.8%
Net Change	\$5,690,360	5,337,800	
Retained Earnings, July 1		22,096,812	
Ending Retained Earnings		\$27,434,612	

VITA's Enterprise Funds are comprised of the portal access program (Virginia Interactive) and Wireless E-911 revenues.

**YTD Financial Results
General Fund**

	<i>FY 2007 Budget</i>	<i>30-Sept-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
<u>GF</u>			
Revenues, including transfers in	\$6,203,080	\$0	0%
Expenses, including transfers out	<u>\$6,203,080</u>	<u>7,348</u>	0%
Net Change	\$0	(7,348)	
Retained Earnings, July 1		0	
Ending Retained Earnings		\$(7,348)	

The revenue and expense amounts shown do not reflect a budget reduction of \$3.3 million “savings” assessment. The underlying intent of the reduction was that customer agencies will realize IT cost savings as a consequence of VITA’s efficiencies and economies of scale. VITA would then identify these savings, enabling the Department of Planning and Budget to reduce agency budgets accordingly.

As a consequence of the yet-unresolved issue of the “savings” reduction, and the fact that the general fund appropriations for the base map update need to be transferred by DPB to VITA, there was scant expense activity in this fund category during the first quarter. Consequently, expenses in ISF are disproportionately higher than would otherwise be expected. When the GF appropriations corrections are made, expenses will be restored to the general fund as appropriate.

**YTD Financial Results
Special Revenue Funds**

	<i>FY 2007 Budget</i>	<i>30-Sept-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
<u>Special</u>			
Revenues, including transfers in	\$4,416,976	\$1,409,687	31.9%
Expenses, including transfers out	<u>\$4,416,976</u>	<u>812,259</u>	18.4%
Net Change	\$0	597,428	
Retained Earnings, July 1		3,438,339	
Ending Retained Earnings		\$4,035,767	

Special Revenue Funds are comprised of funding to support acquisition services (IFA), public-private partnerships (PPEA), Virginia Geographic Information System (VGIN) services, and the Virginia Technology Infrastructure fund. IFA revenues ran well ahead of estimates in the last fiscal year, in part because of improvements in recording and collection efforts. This account funds acquisition and general government activities, including support to the Governor's Office that would not normally be included as overhead billed to state agencies and other customers.

**September 2007 YTD Financial Results
Federal Funds**

<u>Federal</u>	<i>FY 2007 Budget</i>	<i>30-Sept-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
Revenues, including transfers in	\$367,510	\$0	0%
Expenses, including transfers out	<u>\$367,510</u>	<u>252,161</u>	68.6%
Net Change	\$0	(252,161)	
Retained Earnings, July 1		552,310	
Ending Retained Earnings		\$300,149	

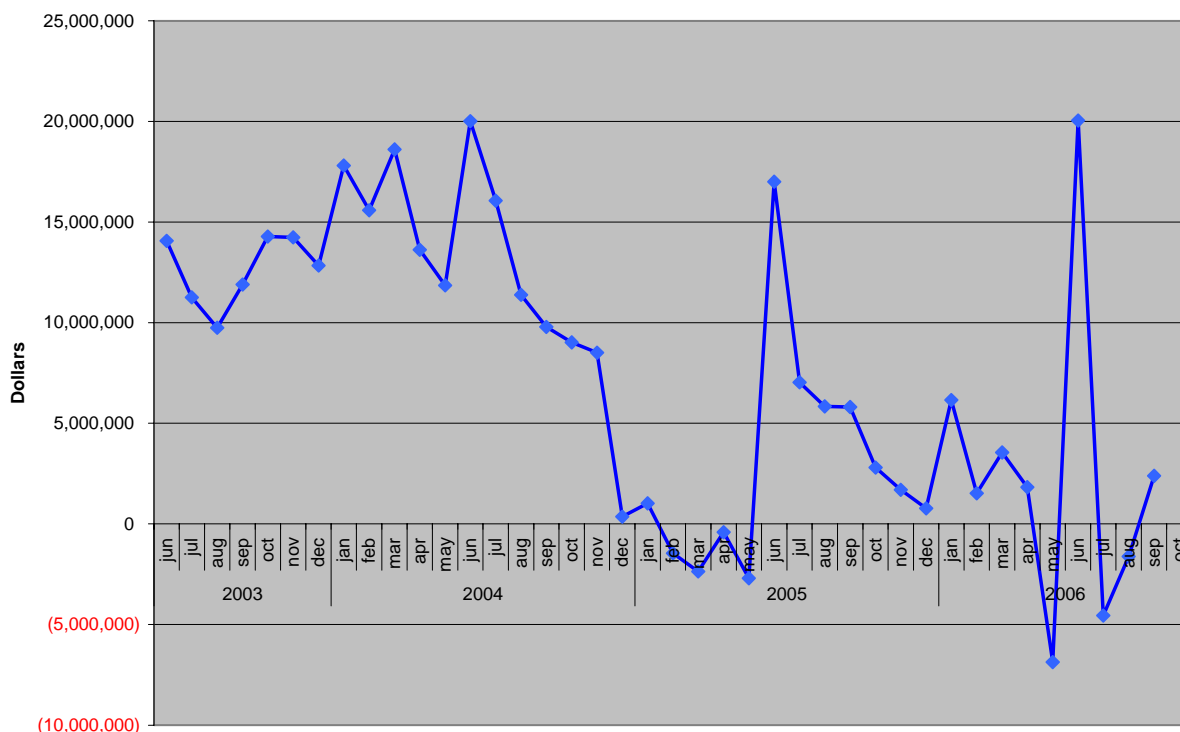
In FY 2006 VITA received \$1.7 million in Homeland Security Grant funds, and expended about \$1.4 million. The year-end balance carried-forward of about \$0.6 million is obligated for the completion of the two federally supported projects involved.

Cash Flow – Internal Service Fund (ISF)

ISF Cash with Treasurer of Virginia

30-Jun-06	\$ 20,037,685
30-September-06	\$ 2,395,309

VITA - ISF Cash On-Hand (end of month)



The chart above clearly indicates the impact on VITA cash flow of periods of transformation. Even before VITA was created, its predecessor agencies had operated by capitalizing agency expenditures, paying personal service and other costs, and then seeking reimbursement from state and local agencies receiving services. When VITA was created that same charge-back and rate allocation system was applied to the consolidated agency. The chart indicates that after years of operating under the previous system, revenues and expenditures, and therefore cash flow, was relatively smooth. That was true until early in calendar year 2005 when all of the “large” agencies were merged in and the VITA consolidation was complete. Cash-flow was in negative territory for almost all the first half of that year. Recognizing the potential impact of the Northrop-Grumman agreement on cash-flow, the Memorandums of Understanding process were in part designed to smooth transition. After the traditional year-end, however, discretionary spending spikes [however] (which are clearly evident in 2005 and 2006)[,] during the first quarter of this fiscal year, another transition period, demonstrating another clear change in the pattern [has clearly changed again]. VITA has ended each of the past three months with negative or very little cash on-hand, the explanation for which is relatively simple – many of the state agencies have simply not paid, short paid or are slow paying their VITA MOU bills as final agreements have been hammered out, and while some costs of the transition to Northrop-Grumman have peaked. Meantime accounts receivable have grown by a similar amount. Executive agencies with accounts receivable for shared services (MOU) outstanding for more than 30 days (as of October 11, 2006) include several Health and Human Resource and Education agencies, as well as some Public Safety, Commerce and Trade, and Natural Resource agencies related to MOU’s as further discussed below.

Memoranda of Understanding With Agencies

As part of the transition of services to Northrop-Grumman, and the planned evolution of unit cost, or shared services rates for billing, VITA began entering into Memorandums of Understanding with customer agencies. The agreements will allow VITA and the agencies to better plan for service levels and cash flow in the future.

At the end of October 2006 eighty (80) Executive Branch agencies and VITA have fully executed Memorandums of Understanding for personal services (Phase 1). Two (2) MOU's remain unexecuted and negotiation with agency heads and cabinet officials continue.

At the end of October 2006 fifty (50) Executive Branch agencies and VITA have fully executed Memorandums of Understanding for non-personal services (Phase 2). Twelve (12) MOU's remain unexecuted and negotiation with agency heads and cabinet officials continue.

The Memorandums of Understanding were budgeted to account for approximately \$125 million in VITA revenues for FY 2007. Agencies have agreed to approximately \$105 million of that total, rejected \$5.0 million in projected costs, and about \$15.0 million in potential revenues remain unresolved.

Enterprise Applications Project Office

Enterprise Applications Public-Private Partnership Project Office Budget Actual Statements Fiscal Year 2007 As of September 30, 2006			
Category	Annual Budget	Actual	Remaining Budget
Personnel	431,964.00	27,311.84	404,652.16
Office Space	24,500.00	0.00	24,500.00
Operational Costs	16,706.00	0.00	16,706.00
Other	7,881.00	1,768.00	6,113.00
Contracts	55,949.00	35,560.74	20,388.26
Office Supplies	3,000.00	406.59	2,593.41
Travel/Business Meals	10,000.00	1,888.29	8,111.71
Totals	550,000.00	66,935.46	483,064.54
<i>Prepared by the Department of Accounts October 11, 2006</i>			

2007 Budget Requests & Rate Proposals

Agencies received guidance on the 2006 – 2008 biennial budget update from the state in mid-September. VITA recently prepared, and submitted to the Secretary of Technology for approval, a summary description of proposed budget requests. Secretary Chopra endorsed the VITA proposal, which is summarized below.

VITA staff members are preparing detailed decision packages and/or rates adjustment requests for each of these actions. At the October 18 meeting, Finance and Audit Committee and ITIB members will be asked to approve the submission, to the Department of Planning and Budget, of VITA's budget update. October 18 is also the due date to DPB.

PROPOSED 2007 VITA BUDGET SUBMISSION

(\$ in Millions)

Decision Package Description	<u>FY 2007</u>			<u>FY 2008</u>		
	GF	NGF	FTEs	GF	NGF	FTEs
<i>Eliminate GF "savings" assessment</i> in Item 422 and associated NGF reduction in subsection 3-1.101 W. intended to capture agency IT expense reductions	3.3	3.5	0	1.6	3.5	0
<i>Implement new rates for desktop, network, and server acquisition and support</i> to replace current MOU charges	0	0	0	0	10.0	0
<i>Implement new rates for geospatial information services</i> to replace GF appropriations for digital orthophotography and other data updates	0	0	TBD	0	1.6	TBD
<i>Revise language in Act to increase VITA's line of credit</i> authority to \$10M	0	0	0	0	0	0
<i>Adjust VITA's position level</i> to (1) to reduce positions due to employee transfers to NG and (2) assure adequate staffing for VITA's core functions	0	0	TBD	0	0	0
<i>Modify the rate structure for project management</i> oversight and consultation provided to customers to assure full funding of mandated activities	0	0	0	0	0	0
<i>Initiate pilot project to provide telework satellite location(s)</i> for VITA and NG employees moving to Commonwealth Enterprise Solutions Center in FY 2008	0.1	TBD	TBD	TBD	TBD	TBD
<u>TOTALS</u>	<u>3.4</u>	<u>3.5</u>	<u>TBD</u>	<u>1.6</u>	<u>15.1</u>	<u>TBD</u>